



AUDITOR-GENERAL
SOUTH AFRICA

The accounting officer
Thembisile Hani Local Municipality
Private Bag X4041
Empumalanga
04580

30 November 2015

Reference: 18004REG14/15

Dear Sir

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Thembisile Hani Local Municipality for the year ended 30 June 2015

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
3. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
4. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
5. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
6. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely


.....
Daniel Radebe

Senior Manager: Mpumalanga

Enquiries: Daniel Radebe
Telephone: 013 756 0800
E-Mail: danielr@agsa.co.za

Auditor's report

Thembisile Hani Local Municipality

30 June 2015

Report of the auditor-general to the Mpumalanga Provincial Legislature and the council on the Thembisile Hani Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Thembisile Hani Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Revenue

6. The municipality did not have adequate systems to ensure a properly updated valuation roll and billing system. The municipality did not always update its valuation roll with changes within its jurisdiction and its billing system with property market values. Some accounts in the general ledger could not be found in the valuation roll and some of the properties in the valuation roll were not included as rateable properties on the billing system. Property owners on the valuation roll also differed from the owners captured on the financial system of the municipality. Consequently, property rates amounting to R45 254 092 and receivables amounting to R39 444 394 disclosed in note 5 to the financial statements were understated by R44 981 594. Additionally, there was a resultant impact on the surplus for the period and on the accumulated surplus.

Qualified opinion

7. In my opinion, except for the effects of the matter described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Thembisile Hani Local Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Going concern

9. As disclosed in note 39 to the financial statements, the municipality's creditor-payment and debt-collection periods exceeded 175 days, thus making it a challenge for the municipality to honour its obligations on time. This condition indicates the existence of a material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern in the absence of financial assistance from provincial or national government.

Material losses

10. As disclosed in note 2 to the financial statements, material losses of R58 394 773 (58,4%) were incurred as a result of distribution losses.

Material impairment

11. As disclosed in note 5 to the financial statements, the receivables balance was significantly impaired. The impairment of consumer debtors amounted to R372 520 971 (2013-14: R327 775 456), which represented 89% (2013-14: 96,8%) of the total consumer debtors. The contribution to the provision for debt impairment was R44 745 515 (2013-14: R150 737 889)

Restatement of corresponding figures

12. As disclosed in note 37 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of errors discovered during 2014-15 in the financial statements of the municipality at, and for the year ended, 30 June 2014.

Additional matter

13. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

14. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

Report on other legal and regulatory requirements

15. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2015:
 - Development priority 1: service delivery and infrastructure development, on pages ... to ...
 - Development priority 2: social development service, on pages ... to ...
17. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
18. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information*.

19. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. I did not identify material findings on the usefulness and reliability of the reported performance information for the following development priorities:
 - Service delivery and infrastructure development
 - Social development service

Additional matters

21. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected development priorities, I draw attention to the following matters:

Achievement of planned targets

22. Refer to the annual performance report on pages ... to ... for information on the achievement of the planned targets for the year.

Adjustment of material misstatements

23. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for the development priority relating to service delivery and infrastructure. As management subsequently corrected the misstatements, I did not identify material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

24. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements, performance report and annual report

25. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of property, plant and equipment; revenue; receivables; expenditure and disclosure of commitments identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

26. Contracts were extended without tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.

Expenditure management

27. Reasonable steps were not taken to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
28. Money owed by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.

Revenue management

29. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

Consequence management

30. Irregular expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

Internal control

31. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and the findings on compliance with legislation included in this report.

Leadership

32. The accounting officer did not exercise oversight responsibility regarding financial and performance reporting, compliance and related internal controls.

Financial and performance management

33. The municipality did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information.
34. The municipality did not review and monitor compliance with applicable legislation.
35. Management did not implement controls over daily and monthly processing and reconciling of transactions.

Governance

36. The audit committee operated effectively during the current period as per their legislated mandate. Recommendations were made to management to improve internal controls and ensure reliable reporting of financial and performance information as well as compliance with legislation. However, this did not result in improved controls, due to management not implementing the recommendations.

Deborah Geronzi
Mbombela

30 November 2015



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

